LIQUIDATION WORLD INC.

LIQUIDATION WORLD

ANNUAL REPORT 1997

ENTREPRENEUR OF THE YEAR
1995

FIRST CHOICE
Calgary Herald
READERS' CHOICE AWARDS 1996
DISCOUNT STORE
1996

GOLD
1997
Calgary Herald
READERS' CHOICE AWARDS
Discount Store
1997

LIQUIDATION WORLD INC.

MISSION STATEMENT

Liquidation World strives to help organizations with their inventory problems through a commitment to:

OUR SHAREHOLDERS: We have an obligation to provide our shareholders with a superior return on investment, to ensure honesty and integrity is a part of everything we do, and to encourage initiative from our people at all times.

OUR CUSTOMERS: We have a partnership with our Customers that demands value and the lowest prices in the market, a friendly shopping experience in well-maintained facilities, and an ability to exceed Customers' expectations. We are committed to developing long-term relationships with each and every Customer.

OUR PEOPLE: We treat everyone with fairness and respect and demand honesty and integrity in everything we do. We require hard work and teamwork, a commitment to controlling costs and an acute spirit of customer service. We will provide an entrepreneurial environment where advancement is based on superior performance.

COMPANY PROFILE

Liquidation World Inc. is a Calgary, Alberta based company specializing in marketing merchandise from distress situations, such as bankruptcies, receiverships, close-outs, inventory overruns and insurance claims. To date our 64 retail outlets are located in Alberta, B.C., Ontario Saskatchewan, Washington State and Idaho.

Liquidation World operates with a commitment to providing our clients with a direct, professional approach to solving their problems. This may involve the purchase or consignment of quality merchandise at a discount to manufacturers' wholesale prices and passing those savings on to our value-oriented retail customers. Those purchase situations have involved Canadian, United States and Caribbean businesses as well as businesses in the Far East.

Corporate buyers and buyers located in every outlet have the autonomy to make quick purchase decisions for thousands of dollars should the opportunity arise. This flexibility allows us to evaluate business situations as they are presented, and thereby maximize our ability to obtain premium value merchandise.

Liquidation World's approach to merchandise acquisition and retailing allows it to acquire any and all types of merchandise and to sell to the retail customer while providing a responsible business alternative to clients with distress situations.

SUMMARY OF SELECTED FINANCIAL DATA

	1997	1996	1995	1994	1993	1992	1991	1990	1989	1988	1987
Sales ($,000)	96,574	71,705	56,268	35,912	24,313	18,980	13,173	11,319	5,204	1,781	790
Cost of Sales ($,000)	57,877	43,627	35,708	22,084	14,971	11,707	7,631	6,730	3,265	947	502
Gross Margin ($,000)	38,697	28,078	20,560	13,828	9,342	7,273	5,542	4,589	1,939	834	288
Expenses ($,000)	31,494	21,805	16,042	12,047	7,940	6,232	4,897	3,667	1,538	765	278
EBIT ($,000)	7,203	6,273	4,518	1,781	1,402	1,041	645	922	401	69	10
Interest ($0,000)	53	169	280	128	189	250	280	227	77	4	–
Income Taxes ($,000)	3,067	2,584	1,867	755	511	369	171	305	132	37	2
Net Earnings ($,000)	4,083	3,520	2,371	898	702	422	194	390	192	28	8
Earnings per Share ($)											
Basic	1.06	1.02	0.78	0.30	0.33	0.24	0.11	0.24	0.12	0.02	0.01
Fully diluted	0.98	0.92	0.72	0.28	0.29	0.21	0.10	0.22	0.12	0.02	0.01
% Increase in Sales	35%	27%	57%	48%	28%	44%	16%	118%	193%	126%	–
Number of Outlets at year end	58	39	29	22	14	10	7	5	4	2	1
Inventory at year end ($,000)	27,734	18,427	15,527	11,027	6,425	5,435	3,745	3,357	2,430	673	286

NOTE:
The above information has been retroactively re-stated to reflect the Company's current accounting policies and share structure.

PRESIDENT'S REPORT

We are pleased to present the results of our eleventh year of operations and what a year it was! There were unprecedented opportunities in real estate that allowed us to open 20 new outlets and move two existing ones. The stage was also set to open another six in the first quarter of fiscal 1998. With only one closure, we increased the store count from 39 at the beginning of the year to 58 at year end and currently to 64.

Financially, sales increased 35% on the year to $96 million from $72 million in fiscal 1996. Primarily because of the expenses associated with opening new outlets, net earnings increased 16% to $4.1 million during the year ended October 5, 1997 from $3.5 million during the year ended October 6, 1996. Most of the outlets opened in the year were larger than average and two were three times the average size. The Company's conservative accounting policies require that all soft costs related to store openings be expensed as incurred. Since fifteen of the twenty stores were opened since April, most of the benefit of opening the outlets is yet to be seen.

The new outlets served both to extend and strengthen the Company's position in the various markets. For example, five outlets were opened in the Seattle area greatly increasing the penetration in that market. Three outlets were opened on Vancouver Island introducing the Company's unique concept there for the first time. Six new locations in Ontario doubled the number of outlets extending the Company's reach from Sarnia in the west to Ajax in the east and filled in a few strategic locations in between. Other outlets opened in Alberta, Saskatchewan, Washington and B.C. further extending the Company's reach and increasing efficiencies in distribution and advertising.

During the year, we saw one of Canada's great retail icons seek creditor protection as well as many retailers in the U.S. This further serves to remind that inventory problems arise in any cycle of the economy. Insurance claims resulting from inclement weather have been a significant source of inventory for years and who knows what El Nino may bring? Each year we find more and more distress merchandise and we still find deals that are too big for us to handle. We are confident that there will not be a shortage of inventory as we grow and, in fact, we expect to become one of few in North America who may handle those larger situations.

Opportunities for real estate continue to surface even in the improved economy. Existing structures we seek do not seem to be appropriate for many others who need to have their own layouts, preferred locations or other characteristics. As our requirements are flexible, there are many suitable locations from which to choose. However, we will not enter a lease agreement unless it is on our terms, which ensures the lease costs are sufficiently low to help ensure profitability and, if not, easily sub-leased. The financial strength of the Company assures potential landlords that the Company has the ability to meet its commitments over the term. As a tenant, Liquidation World is therefore less risky and landlords are more willing to accept lower lease rates.

I personally spend a lot of time in the outlets and find it very gratifying to meet the customers, associates and management of each one. It is gratifying to see what Liquidation World has become and where it is going. It is an organization that has been built on the hard work and flexibility of many to make the deals come together and the professionalism displayed by our people in their interaction with other organizations, often under very difficult circumstances. We appreciate our customers who reward us with their patronage and have, among other things, through a Calgary Herald survey, voted Liquidation World the First Choice among discount stores for the second year in a row. We also appreciate our shareholders who have shown their faith in the Company and its people.

Sincerely

Dale Gillespie

President & C.E.O.

December 10, 1997

MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

The Company's fiscal year end is the first Sunday in October and ended October 5, 1997 comprising 52 weeks of operations. The prior year comprised 53 weeks of operations and ended October 6, 1996. The 1995 fiscal year comprised 52 weeks of operations and ended October 1, 1995.

Sales

Sales of merchandise totalled $96,573,908 for the year ended October 5, 1997, an increase of 34.7% from $71,705,025 in fiscal 1996. The increase was the result of 20 new outlets opened during the year and a full year of operations from ten stores opened in 1996. Sales increased 27.4% to $71,705,025 in 1996 from $56,267,725 in 1995 primarily on the strength of the new stores opened in 1996 and a full year's operations of eight outlets opened in 1995.

Sales increases in 1997 as a result of stores opened in 1996 operating for a full year will approximate 19%. The Company expects to open 12 stores in 1998, however, this will vary depending upon opportunities available in real estate.

Gross Margin

Gross margin as a percentage of sales increased in 1997 to 40.1% compared to 39.2% in 1996 and 36.5% in 1995. The gross margin in 1995 was lower as a result of a relatively high proportion of auction business during that year (auctions operate with lower gross margins than stores). Excluding auctions, the 1995 gross margin percent was approximately 38.5%. Small fluctuations in gross margin occur from year to year as a result of changes in the product mix throughout the stores. Liquidation World's pricing policy obliges the Company to use selling prices that are lower than any other in the market including discount stores, warehouse-type outlets and special promotions.

Selling and Store Operations

Selling and store operations, which includes all costs of occupying and operating the outlets and opening new outlets, increased as a percentage of sales in fiscal 1997 to 28.6% ($27,646,985) compared to 26.0% ($18,628,497) in fiscal 1996. The increase in the percentage of sales is the result of opening 20 new outlets during the year, many of which were larger than average, and therefore incurred start up costs greater than normal. Pre-opening costs are expensed as incurred.

Selling and store operations increased as a percentage of sales in 1996 to 26.0% ($18,628,497) from 24.3% ($13,672,439) in 1995. This increase is a result of proportionately less auction business in 1996. Auction sales experience lower costs as a percentage of sales.

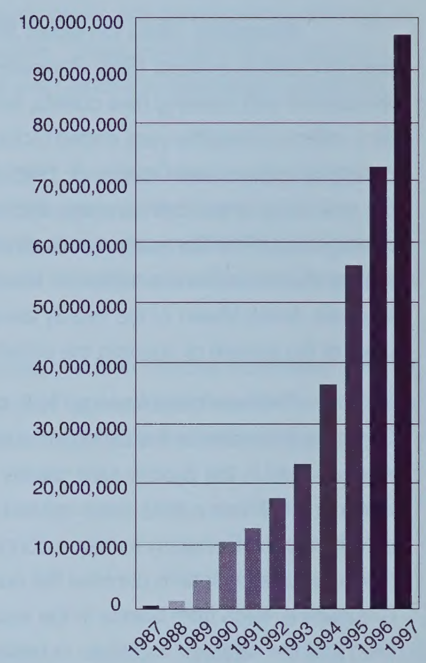
General and Administrative Expenses

General and administrative expenses decreased as a percentage of sales in fiscal 1997 to 3.4% ($3,260,280) from 4.0% ($2,843,812) during fiscal 1996 as a result of the infrastructure growing at a slower rate than sales. General and administrative costs had increased in 1996 to 4.0% ($2,843,812) from 3.8% in 1995, again as a result of the relatively large amount of auction business in 1995.

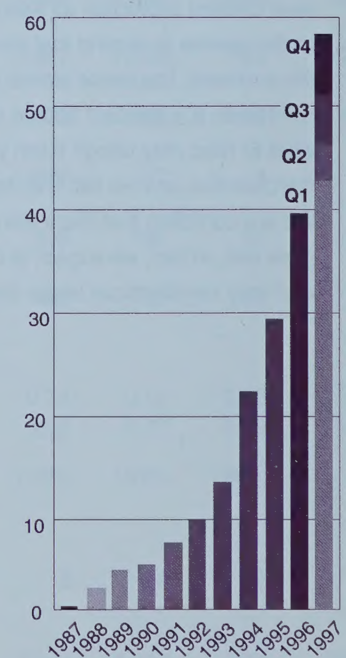
Depreciation and Amortization

Depreciation and amortization increased 70.9% to $613,396 compared to $359,003 in 1996. The 1996 increase was 57.9% from $227,310 in 1995. Both increases reflect the increases in the underlying capital assets of 46.8% and 72.6% in 1997 and 1996 respectively. The corollary increases are not perfect due to the timing within each year of store openings. The growth in expenditures on capital and other assets exceeded the growth in the number of outlets in 1996 because as the number of fixtures sought increases the availability of inexpensive fixtures decreases. Further, additional fixtures and equipment were purchased during 1996 in anticipation of new outlets to be opened in 1997.

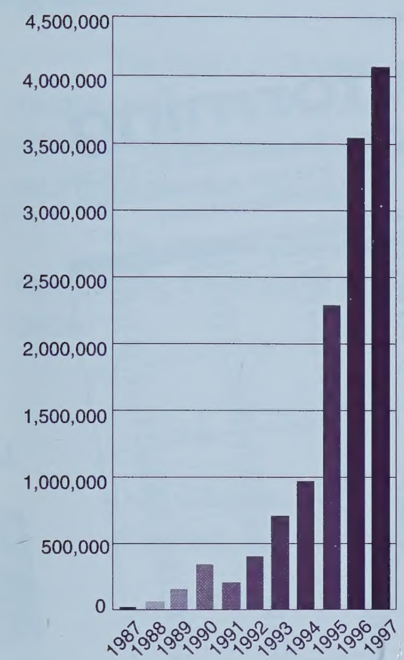
SALES



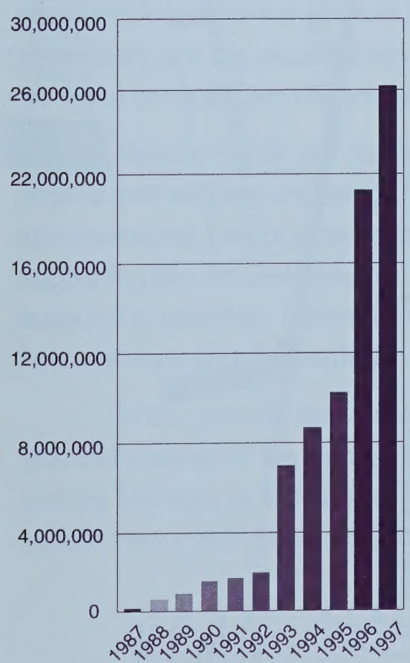
NUMBER OF OUTLETS



NET EARNINGS



SHAREHOLDERS' EQUITY



Interest

Interest decreased 68.8% in 1997 to $52,685 from $169,062 in 1996 which was in turn a decrease of 39.6% from $279,827 in 1995. These decreases are a result of share capital issued netting $3.8 million in March 1996 and, $3.7 million in June 1996 (net of related expenses). Accordingly bank indebtedness was low during the third quarter of 1996 and the Company had cash surpluses during the fourth quarter of 1996 through the third quarter of 1997.

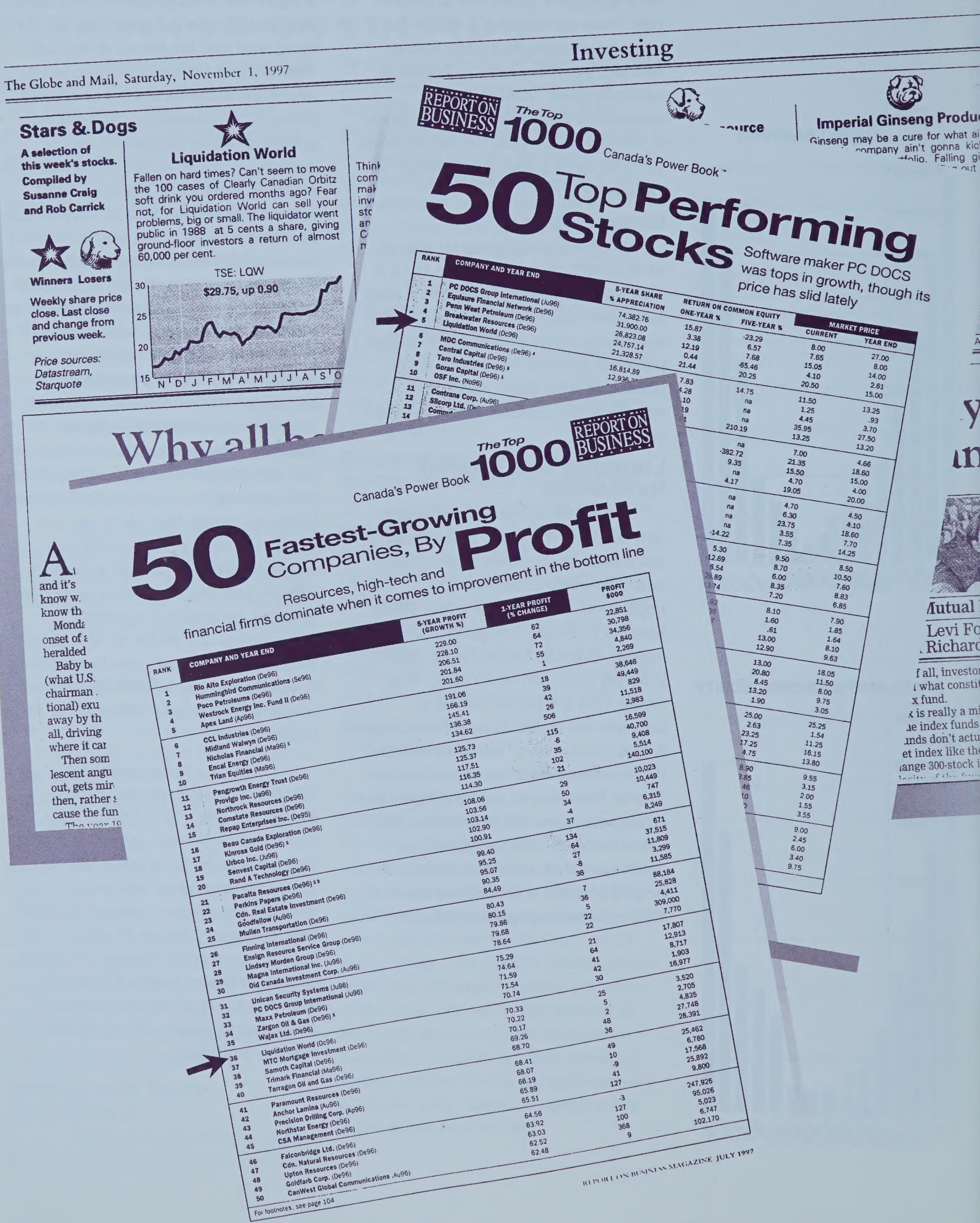
Income Taxes

The effective income tax rates of 43.1% in 1997, 42.3% in 1996 and 44.1% in 1995 approximate statutory tax rates in effect during each year (44.6%, 44.6%, and 44.5% respectively) except for share issuance costs (which are deductible from income for tax purposes over five years), small timing differences, non deductible expenditures and other items.

Liquidity and Capital Resources

Liquidation World is continuing to carry out its plan for growth through opening new outlets. Twenty outlets were opened in fiscal 1997 (Hinton, Edmonton N.E., Lloydminster, Saskatoon, Kent, Port Alberni, Nanaimo, Courtenay, Orangeville, Ajax, Ingersoll, Uxbridge, Spokane North, Renton, University Place, Shoreline, Guelph, West Seattle, Clark and Sarnia) and one in Coquitlam was closed. Ten outlets were opened in 1996 (Yorkton, North Vancouver, Rexdale, Richland, Prince Albert, Hamilton, Coquitlam, Tukwila, Prince George and Wainwright). Eight outlets were opened in 1995 (Kelowna, Red Deer, Drumheller, Lewiston, Moose Jaw, Tsawwassen, Peace River and Toronto). A temporary location in Burnaby was closed in 1995 as the building had been slated for demolition to make way for a housing complex. Six outlets have been opened in the first quarter of fiscal 1998. The Company incurred capital expenditures, net of disposals, of $1,504,644 during fiscal 1997 ($1,373,145 during fiscal 1996 and $366,164 in fiscal 1995) to provide fixtures and equipment and make necessary leasehold improvements to new outlets and upgrade or provide equipment in existing locations. Additional working capital required to provide inventory for the locations ranged between $250,000 and $600,000 depending on the size of the outlet. Cash flow from operations before working capital requirements totalled $4,624,026 (1996 - $3,782,734; 1995 - $2,606,084). Working capital requirements for expansion totalled $8,502,245 in fiscal 1997 (1996 - $2,374,159; 1995 - $2,795,067). Accordingly, net cash flow consumed in operations totalled $3,878,219 during fiscal 1997. This net cash shortfall along with expenditures for capital assets were financed from cash on hand at the beginning of the year, cash generated from operations and short term borrowings totalling $495,143 at year end. During 1996 net cash flow provided from operations totalled $1,408,575. Accordingly, sufficient cash flow was provided by operations to finance expansion and equipment improvements. In 1995 the net cash shortfall of $188,983 as well as cash used for investment in capital assets was financed with short-term borrowing facilities which totalled $3,292,161 at October 1, 1995.

Working capital improved to $22,992,830 at 1997 year end (1996 - $19,392,387; 1995 - $9,319,408). The improvement to working capital as at October 6, 1996 is due largely to the sale of 650,000 Special Warrants (which were subsequently converted into common shares) on March 29, 1996, netting the Company $7,492,177. The Company currently has short-term borrowing facilities established totalling $12,000,000 which is sufficient for planned expansion in 1998 including a reserve for any potential inventory acquisitions.



The Globe and Mail, Saturday, November 1, 1997

Investing

Stars & Dogs

A selection of this week's stocks. Compiled by Susanne Craig and Rob Carrick

Winners Losers

Weekly share price close. Last close and change from previous week.

Price sources: Datastream, Starquote

Liquidation World

Fallen on hard times? Can't seem to move the 100 cases of Clearly Canadian Orbitz soft drink you ordered months ago? Fear not, for Liquidation World can sell your problems, big or small. The liquidator went public in 1988 at 5 cents a share, giving ground-floor investors a return of almost 60,000 per cent.

Imperial Ginseng Produ…

Ginseng may be a cure for what ai… company ain't gonna kic… …folio. Falling gi…

Why all h…

A… and it's … know w… know th… Monda… onset of a… heralded… Baby b… (what U.S. … chairman … tional) exu… away by th… all, driving … where it ca… Then som… lescent angu… out, gets mir… then, rather … cause the fun…

Mutual … Levi Fo… Richard…

…f all, investo… what consti… x fund. …x is really a mi… …e index funds… …nds don't actu… …et index like th… …ange 300-stock i…

REPORT ON BUSINESS — The Top 1000 — Canada's Power Book

50 Top Performing Stocks

Software maker PC DOCS was tops in growth, though its price has slid lately

RANK	COMPANY AND YEAR END	5-YEAR SHARE % APPRECIATION	RETURN ON COMMON EQUITY ONE-YEAR %	RETURN ON COMMON EQUITY FIVE-YEAR %	MARKET PRICE CURRENT	MARKET PRICE YEAR END
1	PC DOCS Group International (Ju96)	74,382.76	15.87	-23.29	8.00	27.00
2	Equisure Financial Network (De96)	31,900.00	3.38	6.57	7.65	8.00
3	Penn West Petroleum (De96)	26,823.08	12.19	7.68	15.05	14.00
4	Breakwater Resources (De96)	24,757.14	0.44	-65.46	4.10	2.61
5	Liquidation World (Oc96)	21,328.57	21.44	20.25	20.50	15.00
6	MDC Communications (De96)[4]	16,814.89				
7	Central Capital (De96)					
8	Taro Industries (De96)[2]					
9	Goran Capital (De96)[2]					
10	OSF Inc. (No96)					

REPORT ON BUSINESS — The Top 1000 — Canada's Power Book

50 Fastest-Growing Companies, By Profit

Resources, high-tech and financial firms dominate when it comes to improvement in the bottom line

RANK	COMPANY AND YEAR END	5-YEAR PROFIT (GROWTH %)	1-YEAR PROFIT (% CHANGE)	PROFIT $000
1	Rio Alto Exploration (De96)	229.00	62	22,851
2	Hummingbird Communications (Se96)	228.10	64	30,798
3	Poco Petroleums (De96)	206.51	72	34,356
4	Westrock Energy Inc. Fund II (De96)	201.84	55	4,840
5	Apex Land (Ap96)	201.60	1	2,269
6	CCL Industries (De96)	191.06	18	38,646
7	Midland Walwyn (De96)	166.19	39	49,449
8	Nicholas Financial (Ma96)[1]	145.41	42	829
9	Encal Energy (De96)	138.38	26	11,518
10	Trian Equities (Ma96)	134.62	506	2,983
11	Pengrowth Energy Trust (De96)	125.73	115	16,599
12	Provigo Inc. (Ja96)	125.37	-6	40,700
13	Northrock Resources (De96)	117.51	35	9,408
14	Comstate Resources (De96)	116.35	102	5,514
15	Repap Enterprises Inc. (De95)	114.30	21	140,100
16	Beau Canada Exploration (De96)	108.06	29	10,023
17	Kinross Gold (De96)[3]	103.56	50	10,449
18	Urbco Inc. (Ju96)	103.14	34	747
19	Senvest Capital (De96)	102.90	-4	6,315
20	Rand A Technology (De96)	100.91	37	8,249
21	Pacalta Resources (De96)[1,3]	99.40	134	671
22	Perkins Papers (De96)	95.25	64	37,515
23	Cdn. Real Estate Investment (De96)	95.07	27	11,809
24	Goodfellow (Au96)	90.35	-8	3,299
25	Mullen Transportation (De96)	84.49	36	11,585
26	Finning International (De96)	80.43	7	88,184
27	Ensign Resource Service Group (De96)	80.15	36	25,828
28	Lindsey Morden Group (De96)	79.86	5	4,411
29	Magna International Inc. (Ju96)	79.68	22	309,000
30	Old Canada Investment Corp. (Au96)	78.64	22	7,770
31	Unican Security Systems (Ju96)	75.29	21	17,807
32	PC DOCS Group International (Ju96)	74.64	64	12,913
33	Maxx Petroleum (De96)	71.59	41	8,717
34	Zargon Oil & Gas (De96)[3]	71.54	42	1,903
35	Wajax Ltd. (De96)	70.74	30	16,977
36	Liquidation World (Oc96)	70.33	25	3,520
37	MTC Mortgage Investment (De96)	70.22	5	2,705
38	Samoth Capital (De96)	70.17	2	4,835
39	Trimark Financial (Ma96)	69.26	48	27,748
40	Tarragon Oil and Gas (De96)	68.70	36	28,391
41	Paramount Resources (De96)	68.41	49	25,462
42	Anchor Lamina (Au96)	68.07	10	6,780
43	Precision Drilling Corp. (Ap96)	66.19	-9	17,568
44	Northstar Energy (De96)	65.89	41	25,892
45	CSA Management (De96)	65.51	127	9,800
46	Falconbridge Ltd. (De96)	64.56	-3	247,926
47	Cdn. Natural Resources (De96)	63.92	127	95,026
48	Upton Resources (De96)	63.03	100	5,023
49	Goldfarb Corp. (De96)	62.52	368	6,747
50	CanWest Global Communications (Au96)	62.48	9	102,170

For footnotes, see page 104

REPORT ON BUSINESS MAGAZINE JULY 1997

MANAGEMENT'S REPORT TO THE SHAREHOLDERS

Preparation of the consolidated financial statements accompanying this annual report and the presentation of all other information in this report is the responsibility of management. The financial statements have been prepared in accordance with appropriate and generally accepted accounting principles and reflect management's best estimates and judgements. All other financial information in the report is consistent with that contained in the financial statements. The Company maintains appropriate systems of internal control, policies and procedures which provide management with reasonable assurance that assets are safeguarded and that financial records are reliable and form a proper basis for preparation of financial statements.

The Board of Directors ensures that management fulfils its responsibilities for financial reporting and internal control through an Audit Committee which is composed of a majority of non-executive directors. The Audit Committee reviewed the consolidated financial statements with management and external auditors and recommended their approval by the Board of Directors.

The consolidated financial statements have been audited by KPMG, Chartered Accountants. Their report stating the scope of their audit and their opinion on the consolidated financial statements is presented below.

Dale Gillespie
President, C.E.O.

Andrew Searby, C.A.
Chief Financial Officer

AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the consolidated balance sheets of Liquidation World Inc. as at October 5, 1997 and October 6, 1996 and the consolidated statements of earnings and retained earnings and changes in financial position for each of the years in the three year period ended October 5, 1997. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at October 5, 1997 and October 6, 1996 and the results of its operations and the changes in its financial position for each of the years in the three year period ended October 5, 1997, in accordance with generally accepted accounting principles.

KPMG

Chartered Accountants

Calgary, Canada

November 26, 1997

LIQUIDATION WORLD INC.

Consolidated Balance Sheets

	October 5 1997	October 6 1996
Assets		
Current assets:		
Cash	$ –	$ 4,406,659
Accounts receivable	372,289	194,461
Inventory	27,734,459	18,426,682
Prepaid expenses	608,684	564,068
	28,715,432	23,591,870
Capital assets (note 2)	3,175,241	2,237,918
Investment in affiliate	93,625	66,837
	$ 31,984,298	$ 25,896,625
Liabilities and Shareholders' Equity		
Current liabilities:		
Bank indebtedness (note 3)	$ 495,143	$ –
Accounts payable and accrued liabilities	4,911,891	3,280,044
Income taxes payable	315,568	919,439
	5,722,602	4,199,483
Shareholders' equity:		
Share capital (note 4)	13,504,965	13,023,904
Retained earnings	12,756,731	8,673,238
	26,261,696	21,697,142
Commitments (note 7)		
	$ 31,984,298	$ 25,896,625

See accompanying notes to consolidated financial statements.

On behalf of the Board:

Director

Director

LIQUIDATION WORLD INC.

Consolidated Statements of Earnings and Retained Earnings

	Years ended		
	October 5 1997	October 6 1996	October 1 1995
Sales	$ 96,573,908	$ 71,705,025	$ 56,267,725
Cost of sales	57,876,857	43,627,271	35,707,664
	38,697,051	28,077,754	20,560,061
Expenses:			
Selling and store operations	27,646,985	18,628,497	13,672,439
General and administrative	3,260,280	2,843,812	2,134,711
Depreciation and amortization	613,396	359,003	227,310
Interest	52,685	169,062	279,827
	31,573,346	22,000,374	16,314,287
Earnings before other items and income taxes	7,123,705	6,077,380	4,245,774
Equity in earnings (loss) of affiliate	26,788	26,457	(7,571)
Earnings before income taxes	7,150,493	6,103,837	4,238,203
Income taxes, current (note 5)	3,067,000	2,584,000	1,867,000
Net earnings	4,083,493	3,519,837	2,371,203
Retained earnings, beginning of year	8,673,238	5,153,401	2,782,198
Retained earnings, end of year	$ 12,756,731	$ 8,673,238	$ 5,153,401
Earnings per share:			
Basic	$ 1.06	$ 1.02	$ 0.78
Fully diluted	$ 0.98	$ 0.92	$ 0.72

See accompanying notes to consolidated financial statements.

LIQUIDATION WORLD INC.

Consolidated Statements of Changes in Financial Position

	Years ended		
	October 5 1997	October 6 1996	October 1 1995
Cash provided by (used in):			
Operations:			
Net earnings	$ 4,083,493	$ 3,519,837	$ 2,371,203
Add (deduct) non-cash items:			
Depreciation and amortization	613,396	359,003	227,310
Gain on disposal of capital assets	(46,075)	(69,649)	–
Equity in (income) loss of affiliate	(26,788)	(26,457)	7,571
	4,624,026	3,782,734	2,606,084
Changes in non-cash operating working capital:			
Accounts receivable	(177,828)	(3,169)	(52,702)
Inventory	(9,307,777)	(2,899,393)	(4,499,834)
Accounts payable and accrued liabilities	1,631,847	682,350	1,033,060
Other, net	(648,487)	(153,947)	724,409
	(3,878,219)	1,408,575	(188,983)
Investments:			
Purchase of capital assets	(1,569,650)	(1,843,145)	(366,164)
Proceeds of disposal of capital assets	65,006	470,000	–
Investment in affiliate	–	–	(47,951)
	(1,504,644)	(1,373,145)	(414,115)
Financing:			
Proceeds on issuance of common shares	481,061	7,663,390	23,175
Increase (decrease) in cash position	(4,901,802)	7,698,820	(579,923)
Cash (bank indebtedness), beginning of year	4,406,659	(3,292,161)	(2,712,238)
Cash (bank indebtedness), end of year	$ (495,143)	$ 4,406,659	$ (3,292,161)

See accompanying notes to consolidated financial statements.

1. Significant accounting policies:

(a) Basis of presentation:

These consolidated financial statements include the accounts of the Company and those of its wholly-owned subsidiary. The Company also has a 50% interest in an affiliate company which is accounted for using the equity method.

(b) Inventory:

Merchandise inventories are carried at the lower of cost and net realizable value less normal profit margins. The cost of inventories is determined principally on an average basis by the use of the retail inventory method.

(c) Capital assets:

Capital assets are recorded at cost. Depreciation is provided on furniture and equipment on a diminishing balance basis at annual rates of 20% to 30%. Leasehold improvements are amortized on a straight-line basis over the term of the lease.

(d) Pre-opening costs:

Pre-opening costs associated with the opening of new locations are expensed as incurred.

(e) Foreign currency translation:

The accounts of the Company's U.S. subsidiary are translated into Canadian dollars using the temporal method whereby monetary assets and liabilities are translated at the year end exchange rates, non-monetary items at historical rates and revenues and expenses at the average rate for the year. Gains or losses arising from exchange translations are included in the statement of earnings and retained earnings.

(f) Earnings per share:

Basic earnings per share are calculated using the weighted average number of common shares and common share equivalents outstanding during the year. Fully diluted earnings per share reflect the exercise of options as if issued at the beginning of the year.

The imputed interest rate used for purposes of calculating fully diluted earnings per share in the current year is 2.5% (1996 – 5.5%,1995 – 9%)

(g) Fiscal year:

The Company's fiscal year ends on the first Sunday of October. Accordingly, the 1997 year end was on October 5, 1997 and comprised 52 weeks of operations. The 1996 year end was on October 6, 1996 and comprised 53 weeks of operations and the 1995 year end was on October 1, 1995 and comprised 52 weeks of operations.

(h) Measurement uncertainty:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets at the date of the finacial statements. In determining the cost amount of inventories, management uses the retail inventory method which is by its nature subjective and therefore actual results could differ from those estimates.

(i) Financial instruments:

The Company uses derivative financial instruments from time to time to hedge its exposure to fluctuations in foreign currency exchange rates. Gains or losses from these activities are reported as adjustments to the related revenue accounts when the gain or loss is realized.

2. Capital assets:

October 5, 1997	Cost	Accumulated depreciation and amortization	Net book value
Furniture and equipment	$ 3,612,149	$ 1,153,714	$ 2,458,435
Leasehold improvements	1,071,467	354,661	716,806
	$ 4,683,616	$ 1,508,375	$ 3,175,241
October 6, 1996			
Furniture and equipment	$ 2,366,367	$ 725,630	$ 1,640,737
Leasehold improvements	823,310	226,129	597,181
	$ 3,189,677	$ 951,759	$ 2,237,918

3. Bank indebtedness:

The Company has an operating line of credit facility at a Canadian bank in the maximum amount of $12,000,000 (reviewed annually), bearing interest at the bank's prime rate plus 1/4% (4.75% at October 5, 1997). The facility is secured by an assignment of book debts, inventory, insurance, leases on retail premises and a general security agreement providing a charge over all assets.

4. Share capital:

(a) Authorized:
Unlimited number of common shares.

(b) Issued:
Details of common shares issued during the years ended October 5, 1997, October 6, 1996 and October 1, 1995:

	Number of shares	Amount
Balance, October 2, 1994	3,045,650	$ 5,337,339
Issued on exercise of share options	16,360	23,175
Balance, October 1, 1995	3,062,010	5,360,514
Issued on exercise of special warrants net of issue costs of $633,503	650,000	7,492,177
Issued on exercise of share options	62,440	171,213
Balance, October 6, 1996	3,774,450	13,023,904
Issued on exercise of share options	111,220	481,061
Balance, October 5, 1997	3,885,670	$ 13,504,965

(c) Stock options:

At October 5, 1997, there were 424,320 (October 6, 1996 – 461,540; October 1, 1995 – 397,980) stock options outstanding in respect of common shares. These options are held by officers, directors and employees of the Company and are exercisable at prices ranging from $1.125 to $18.00 per share, expiring at various dates to 2001.

	Years ended		
	October 5 1997	October 6 1996	October 1 1995
Outstanding, beginning of year	461,540	397,980	341,140
Granted	74,000	130,000	88,200
Exercised	(111,220)	(62,440)	(16,360)
Cancelled	–	(4,000)	(15,000)
Outstanding, end of year	424,320	461,540	397,980

(d) Common share consolidation:

On May 18, 1995 the Company consolidated its common shares on a 1-for-5 basis. The above information has been restated to give retroactive application of the consolidation.

5. Income taxes:

The provision for income taxes differs from the amount obtained by applying the combined applicable income tax rate to earnings before income taxes. The difference relates to the following items:

	Years ended		
	October 5, 1997	October 6, 1996	October 1, 1995
Statutory income tax rate	44.6%	44.6%	44.5%
Calculated tax expense	$ 3,189,100	$ 2,722,300	$ 1,886,000
Capital taxes	40,000	25,000	11,000
Share issue costs	(93,000)	(93,000)	(36,500)
Other items	(69,100)	(70,300)	6,500
	$ 3,067,000	$ 2,584,000	$ 1,867,000

6. Related party transactions:

The Company leases two buildings (20,000 square feet and 22,000 square feet) for two of its retail locations from a company owned by an officer of the Company and a partnership where the same company is a partner. Base rents approximate $45,000 per year to 2003 and $52,000 per year to 2000, respectively.

Sales to an affiliate company, in which the Company holds a 50% interest, were $42,000 (October 6, 1996 – $74,500; October 1, 1995 – $106,000) for the year.

7. Commitments:

a) The Company leases properties under operating leases covering various years up to 2009. The minimum future payments, excluding tenant operating costs, under these leases in each of the next five years are approximately as follows:

1998	$ 3,420,000
1999	2,622,000
2000	2,072,000
2001	1,917,000
2002	1,581,000

In addition to minimum annual rentals, contingent rentals may be payable under certain store leases on the basis of sales in excess of stipulated amounts.

b) The Company sells merchandise on a consignment basis and may guarantee a return to a consignor. At October 5, 1997, the total of such guarantees in excess of remittances approximate $2,200,000 (1996 – $nil; 1995 – $nil).

LIQUIDATION WORLD INC.

8. Segmented information:

The Company's operations are conducted through one business segment which is retail sales. Information regarding the Company's operations by geographical area is as follows:

1997	Canada	U.S.	Total
Sales	$ 84,273,066	$ 12,300,842	$ 96,573,908
Segment operating profit	6,685,097	438,608	7,123,705
Equity in earnings of affiliate			26,788
Income taxes			(3,067,000)
Net Earnings			$ 4,083,493
Idenitifiable assets	$ 24,990,183	$ 6,994,115	$ 31,984,298

1996	Canada	U.S.	Total
Sales	$ 66,861,833	$ 4,843,192	$ 71,705,025
Segment operating profit	5,852,480	224,900	6,077,380
Equity in earnings of affiliate			26,457
Income taxes			(2,584,000)
Net Earnings			$ 3,519,837
Idenitifiable assets	$ 23,820,979	$ 2,075,646	$ 25,896,625

1995	Canada	U.S.	Total
Sales	$ 52,208,729	$ 4,058,996	$ 56,267,725
Segment operating profit	3,964,555	281,219	4,245,774
Equity in loss of affiliate			(7,571)
Income taxes			(1,867,000)
Net Earnings			$ 2,371,203
Idenitifiable assets	$ 14,769,108	$ 2,624,446	$ 17,393,554

9. Reconciliation to United States accounting principles:

The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP"). These financial statements conform, in all material respects, with United States generally accepted accounting principles ("U.S. GAAP"), except for the following:

(a) During the year ended October 2, 1994, the Company granted stock options to officers, directors and employees with exercise prices at a discount to fair market value. Under Canadian GAAP, there is no effect on financial statement presentation for these transactions. Under U.S. GAAP, compensation expense is recorded for the difference between fair market value and the exercise price of the options. If the financial statements were shown on the U.S. GAAP basis, the increase in share capital would be $225,635 and the decrease in retained earnings would be $225,635.

(b) Under U.S. GAAP, cash identified on the statement of changes in financial position excludes a reduction for short-term loans which is required under Canadian GAAP. If the statement of changes in financial position were shown on the U.S. GAAP basis, the increase (decrease) in short-term loans shown under financing activities and the cash, beginning of year and the cash, end of year would be as follows:

	Years ended		
	October 5 1997	October 6 1996	October 1 1995
Short-term loans	$ (495,143)	$ (3,292,161)	$ 579,923
Cash, beginning of year	$ 4,406,659	$ –	$ –
Cash, end of year	$ –	$ 4,406,659	$ –

(c) Under U.S. GAAP, net earnings per common share and common share equivalents are computed using the treasury stock method whereby net income is divided by the weighted average number of shares of common stock and common share equivalents outstanding during the year. The number of common stock is increased by the number of shares issuable on the exercise of options when the market price of the common stock exceeds the exercise price of the options. This increase in the number of common shares was reduced by the number of common shares that are assumed to have been purchased from the proceeds from the exercise of the options; those purchases were assumed to have been made at the average market price of the common stock during those parts of the years when the market price of the common stock exceeded the exercise price of the options. Net earnings per share calculated using this method would be as follows:

	Years ended		
	October 5 1997	October 6 1996	October 1 1995
Net earning per share	$ 0.98	$ 0.95	$ 0.76

Fully diluted earnings per share is not presented because the fully dilutive effect of common shares under option, if such options were exercised, would not be material.

(d) Under U.S. GAAP it is not appropriate to disclose a sub-total for cash flow from operations before working capital requirements in the statement of changes in financial position. If the statement of changes in financial position were shown on the U.S. GAAP basis, this heading and these sub-totals would not appear.

CORPORATE INFORMATION

Senior Management Team:

Dale Gillespie — President C.E.O.
Wayne Mantika — Vice-President
Andrew Searby, C.A. — Chief Financial Officer
Ross Roberts — General Manager
Derrick Gillespie — Manager, Corporate Purchasing

Area Managers:

Darren Gillespie — Pacific Northwest
Jonathan Hill — Ontario

Board of Directors:

Dale Gillespie — President C.E.O.
Richard Groome — President & C.E.O. Groome Capital Advisory Inc.
Hubert Marleau — Retired Businessman
Azriel Presma — Retired Businessman
Warren Rothstein — C.E.O., D & W Enterprises Inc.

Company Head Office:

3900 – 29 Street N.E.
Calgary, Alberta
T1Y 6B6
Phone: (403) 250–1222
Fax: (403) 291–1306

Bank:

Hongkong Bank of Canada
777–8 Avenue S.W.
Calgary, Alberta
T2P 3R5

Auditors:

KPMG
Chartered Accountants
1200, 205–5 Avenue S.W.
Calgary, Alberta
T2P 4B9

Lawyer:

Drummond Phillips & Sevalrud
900, 521–3 Avenue S.W.
Calgary, Alberta
T2P 3T3

Transfer Agent:

Montreal Trust
151 Front Street West
Toronto, Ontario
M5J 2N1

OUTLET LOCATIONS

CANADA

ALBERTA

3900 – 29 Street N.E.
Calgary, Alberta, T1Y 6B6
Phone: (403) 250-1588

6909 Macleod Trail South
Calgary, Alberta, T2H 0L6
Phone: (403) 253-1500

3939 – 17 Avenue S.W.
Calgary, Alberta, T3E 0C3
Phone: (403) 686-2100

303 – 3 Avenue South
Lethbridge, Alberta, T1J 4J8
Phone: (403) 328-2444

1097 Trans Canada Way S.E.
Medicine Hat, Alberta, T1B 1H9
Phone: (403) 528-4200

#37, 6320 – 50 Avenue
Village Mall Shopping Centre
Red Deer, Alberta, T4N 4C6
Phone: (403) 341-5050

"C", 2410 – 50 Avenue
Red Deer, Alberta, T4R 1M3
Phone: (403) 346-4466

555 Highway 10 E.
Greentree Mall
Drumheller, Alberta, T0J 0Y0
Phone: (403) 823-8858

4733 – 50 Avenue
St. Paul, Alberta, T0A 3A0
Phone: (403) 645-6006

15535 – 115A Avenue
Edmonton, Alberta, T5M 3S7
Phone: (403) 451-1400

6938 – 76 Avenue
Edmonton, Alberta, T6B 2R2
Phone: (403) 469-1400

7640 Yellowhead Trail N.W.
Edmonton, Alberta, T5B 1G3
Phone: (403) 471-1400

13530 Fort Road
Edmonton, Alberta, T5A 1B4
Phone: (403) 475-1116

10115 – 99th Avenue
Grande Prairie, Alberta, T8V 0S1
Phone: (403) 532-1900

10028 – 101st Street
Peace River, Alberta, T8S 1S5
Phone: (403) 624-8008

116 Market Street
Hinton, Alberta, T7V 2A2
Phone: (403) 865-6194

218 – 10th Street
Wainwright, Alberta, T9W 1P5
Phone: (403) 842-5200

38 Reidel Street
Fort McMurray, Alberta, T9H 3E1
Phone: (403) 790-6656

BRITISH COLUMBIA

14885 – 108 Avenue
Surrey, B.C., V3R 1W2
Phone: (604) 584-1234

20500 Logan Avenue
Langley, B.C., V3A 1G3
Phone: (604) 532-9288

22255 Dewdney Trunk Road
MapleRidge, B.C., V2X 3H8
Phone: (604) 463-7788

9325 Main Street
Chilliwack, B.C., V2P 4M3
Phone: (604) 792-7111

1193 – 56th Street
Tsawwassen, B.C., V4L 2A2
Phone: (604) 948-2603

730 West 14th Street
North Vancouver, B.C., V7M 1R4
Phone: (604) 990-1564

1331 Clark Drive
Vancouver, B.C., V5L 3L1
Phone: (604) 254-0126

5605 Victoria Drive
Vancouver, B.C., V5R 3W2
Phone: (604) 324-0060

2728 Pandosy Street
Kelowna, B.C., V1Y 1V7
Phone: (250) 860-7115

1303 – 3rd Avenue
Prince George, B.C., V2L 3E8
Phone: (250) 561-1302

131 – 7 Avenue South
Cranbrook, B.C., V1C 2J3
Phone: (250) 426-8933

960 Victoria Street
Kamloops, B.C., V2C 2B9
Phone: (250) 374-1837

250 Winnipeg Street
Penticton, B.C., V2A 5M3
Phone: (250) 770-8889

3598 Johnston Road
Port Alberni, B.C., V9Y 1X1
Phone: (250) 724-7112

620 South Terminal Avenue
Nanaimo, B.C., V9R 5E2
Phone: (250) 754-7195

2966 Kilpatrick Street
Courtenay, B.C., V9N 8P1
Phone: (250) 703-0424

SASKATCHEWAN

850 North Service Road
Moose Jaw, Sask., S6H 4N6
Phone: (306) 693-1923

12 Livingstone Street
Yorkton, Sask., S3N 0R1
Phone: (306) 782-9033

311 South Industrial Dr.
Prince Albert, Sask., S6V 7L7
Phone: (306) 922-0530

901 – 1st Avenue N.
Saskatoon, Sask., S7K 1Y4
Phone: (306) 665-8223

4910 – 50th Street
Lloydminster, Sask., S9V 0Y5
Phone: (306) 825-2272

ONTARIO

150 Holiday Inn Drive
Cambridge, Ontario, N3C 1Z5
Phone: (519) 658-8110

150 King Edward Drive
London, Ontario, N5Z 3T5
Phone: (519) 668-5695

3198 Wonderland Road S.
London, Ontario, N6L 1A1
Phone: (519) 668-2520

605 Rogers Road
Toronto, Ontario, M6M 1B9
Phone: (416) 658-1027

190 Queen's Plate Drive
Rexdale, Ontario, M9W 6Y9
Phone: (416) 745-5890

869 Barton Street
Hamilton, Ontario, L8L 3B4
Phone: (905) 547-8441

Heritage Mall
Orangeville, Ontario, L9W 4P1
Phone: (519) 941-1190

282 Monarch Avenue
Ajax, Ontario, L1S 2G2
Phone: (905) 427-7708

50 Thames Street S.
Ingersoll, Ontario, N5C 2S9
Phone: (519) 425-1677

Uxbridge Shopping Plaza
Uxbridge, Ontario, L0C 1K0
Phone: (905) 852-0677

Woodlawn Centre
20 Woodlawn Avenue E.
Guelph, Ontario, N1H 1G7
Phone: (519) 823-1515

150 N. Christina Street
Sarnia, Ontario, N7T 7W5
Phone: (519) 344-9811

360 Caradoc Street
Strathroy, Ontario, N7G 2P6
Phone: (519) 246-9900

UNITED STATES

WASHINGTON

E. 12606 Sprague
Spokane, Washington, 99216
Phone: (509) 928-1999

W. 2215 Wellesley - Shadle
Spokane, Washington, 99205
Phone: (509) 325-0322

1418 Jadwin Avenue
Richland, Washington, 99352
Phone: (509) 946-3393

1185 Andover Park West
Tukwila, Washington, 98188
Phone: (206) 575-2216

1119 Central Avenue South
Kent, Washington, 98032
Phone: (253) 852-7978

4601 N.E. Sunset Blvd.
Renton, Washington, 98056
Phone: (425) 226-8612

3800 Bridgeport Way W.
University Place
Washington, 98466
Phone: (253) 564-6608

15403 Westminster Way N.
Aurora Square, Shoreline
Washington, 98133
Phone: (206) 361-9707

2501 S.W. Trenton
West Seattle
Washington, 98126
Phone: (206) 923-0525

#303, 91 Avenue N.E.
Everett, Washington, 98205
Phone: (425) 397-7720

401 Valley Mall Parkway
East Wenatchee
Washington, 98802
Phone: (509) 884-0508

IDAHO

605 Thain Road
Lewiston, Idaho, 83501
Phone: (208) 746-4440

Shares are listed on The Toronto Stock Exchange under the symbol – LQW and on NASDAQ under the symbol – LIQWF

LIQUIDATION WORLD

LIQUIDATION WORLD INC.